Request No. DTE 2-35:
Refer to Exhibit FGE-MHC-1 (Electric) at 27. Please explain why the Company factored in a check-float period as part of its purchased power lag. As part of the Company's response, please address the Department's statements on check-float periods found in Commonwealth Electric Company, D.P.U. 89-114/90-331/91-80, Phase One at 22 (1991).

Response:
In determining the leads and lags, both the purchased power and purchased gas leads and lags examined the entire lead and lag durations.

Current banking practices, method of payment or receipt of funds and when such funds are available or no longer available to the Company are fundamentally appropriate to consider. When determining the expense lead period, the period consists of (1) the average days in the month that energy purchases were provided; and (2) the additional billing period until the wire/ACH payment date. This is because these payments are made electronically and not through a bank draft, from which the Department's check-float precedent is derived. Contrary to the manner by which a demand note stands payable, the electric purchase power payments used in this study were made by wire or ACH transfers. The payment date was not included in calculating the lag period because funds are electronically transferred into the Company's accounts on the payment date.

However, for collection purposes, when determining the revenue lag period, the studies do include a lag period that consists of (1) the average days in the month the energy was provided; and (2) the additional billing period through the date that receipts are considered "available" to the Company for banking purposes. In spite of the Department's rejection of the Attorney General's request for check-float lag for payments made by Commonwealth in the case cited above, FG&E's use of a modest two-day float period is both distinguishable and appropriate for a number of reasons.

First, a vast preponderance of customer receipts are received from customers in check form, both for distribution service and for energy service. While such payments are technically payable "on demand," in practice and law, such funds are not available until presentment and honor by the bank.

Second, check deposits are not considered good funds on the day of deposit, because banks are not required to post deposits until midnight on the day of deposit. Furthermore, on succeeding days, net bank balance of "immediately available funds" may not reflect fully such deposits as the customer checks, particularly from large commercial accounts, because of delays in presentment between banks, including those drawn on accounts located outside the processing bank's Federal Reserve District. Further, such balances credited to FG&E's accounts are often adjusted for previously processed checks rejected for various reasons, or in other words, dishonored upon presentment by the drawee's bank.

Third, the purchased power lag is truly a situation of FG&E in the middle. It must pay a third party provider for the power service demanded by its customers and then collect the revenues from customers to reimburse it for this outlay. The reality of the situation is that a float factor is necessary to properly reflect the true duration of the revenue lag resulting from FG&E being in the middle of this transaction. The cost associated with this lag is appropriately recovered from customers.

Person Responsible: Mark H. Collin